

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Midland County Road Commission	County Midland
Fiscal Year End December 31, 2006	Opinion Date June 22, 2007	Date Audit Report Submitted to State June 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

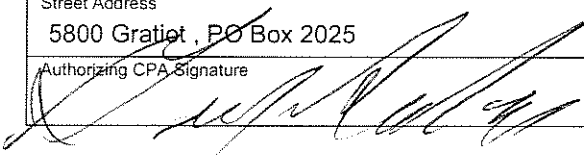
5  
11  
> 2

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (989)799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Authorizing CPA Signature 		Printed Name Gerald J. Deslover, CPA	Zip 48605
		License Number 1101007126	



**Midland County Road Commission**  
(A Component Unit of Midland County)

**Sanford, Michigan**

**Financial Statements**

**For the Year Ended December 31, 2006**

**MIDLAND COUNTY ROAD COMMISSION**  
**(A Component Unit of Midland County)**

**TABLE OF CONTENTS**

---

	<b><u>Page</u></b>
<b>Independent Auditors' Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-9
<b>Basic Financial Statements for the Year Ended December 31, 2006</b>	
Statement of Net Assets and General Fund Balance Sheet	10
Reconciliation of General Fund Balance Sheet to Statement of Net Assets	11
Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance	12
Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	14-15
Notes to Financial Statements	16-24
<b>Operating Fund Schedules</b>	
General Operating Fund – Schedule of Revenues by Component	25
General Operating Fund – Schedule of Expenditures by Component	26
General Operating Fund – Schedule of Changes in Fund Balance	27
<b>Independent Auditor' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	28-29
<b>Schedule of Findings and Responses</b>	30



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

## INDEPENDENT AUDITORS' REPORT

June 22, 2007

Members of the Board of County  
Road Commissioners  
County of Midland, Michigan  
Sanford, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Midland County Road Commission**, a component unit of Midland County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Midland County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Midland County Road Commission** as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2007, on our consideration of **Midland County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Midland County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Midland County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. The annual report consists of a series of financial statements. The Statements of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

### **Overview of the Financial Statements**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities-this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Note that Midland County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

### **Government-wide Statements**

The statement of net assets presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of activities presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets.)

The component unit financial statements are principally supported by state shared revenues (operating grants.) The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Midland County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*.) The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Midland County which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 10 and 12 of this report.

**Fund financial statements.** A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund.)

**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund.) Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purposes as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 14 through 15 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 16 through 24 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

### **Government-wide Financial Analysis**

The Road Commission's net assets increased approximately 15% or \$3,995,905, from \$25,281,337 to \$29,277,242 for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

#### Midland County Road Commission Net Assets:

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 3,672,026	\$ 4,176,676	\$ (504,650)	-12%
Capital assets	<u>27,458,323</u>	<u>23,003,851</u>	<u>4,454,472</u>	19%
Total assets	<u>31,130,349</u>	<u>27,180,527</u>	<u>3,949,822</u>	14%
Long-term liabilities outstanding	436,718	431,613	5,105	1%
Other liabilities	<u>1,416,389</u>	<u>1,467,577</u>	<u>(51,188)</u>	-3%
Total liabilities	<u>1,853,107</u>	<u>1,899,190</u>	<u>(46,083)</u>	-2%
Net assets:				
Invested in capital assets, net of related debt	27,458,323	23,003,851	4,454,472	19%
Unrestricted	<u>1,818,919</u>	<u>2,277,486</u>	<u>(458,567)</u>	20%
Total net assets	<u>\$ 29,277,242</u>	<u>\$ 25,281,337</u>	<u>\$ 3,995,905</u>	15%

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Midland County Road Commission, assets exceeded liabilities by \$29,277,242 at the close of the most recent fiscal year.

By far the largest portion of the Midland County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. Although the Midland County Road Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.



## Governmental Activities

A summary of changes in net assets for the years ended December 31, 2006 and 2005, follows:

	<b>December 31 2006</b>	<b>December 31 2005</b>
Program revenue		
Charges for services	\$ 1,741,768	\$ 2,384,230
Operating grants and contributions		
State transportation funds	6,364,147	5,757,398
Capital grants and contributions		
Federal and state sources	1,057,175	2,369,797
General revenue		
Taxes	1,120,214	1,039,158
Interest and rents	76,808	51,037
Contributions not restricted to program	106	12,127
Gain on equipment disposal	<u>122,133</u>	<u>176,659</u>
Total revenue	10,482,351	11,790,406
Expenses		
Public Works	<u>6,486,446</u>	<u>6,676,547</u>
Increase (decrease) in net assets	<u>\$ 3,995,905</u>	<u>\$ 5,113,859</u>

Governmental activities increased the Midland County Road Commission's net assets by \$3,995,905. The key elements of this increase are as follows:

- There was a 10% increase in the State transportation funds in the current year.
- Charges for services decreased from 2005 due mainly to non-recurring projects performed on the State trunkline and on Township roads in 2005 that were not performed in 2006.
- Capital grants and contributions decreased from 2005 due to non-recurring Federal and State pass-through projects that were performed on County roads in 2005, but not in 2006.

## General Fund Analysis

A summary of changes on the Operating fund is as follows:

	<b>For the year ended December 31, 2006</b>				<b>Actual for the Year Ended December 31, 2005</b>
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	
Revenues					
Taxes	\$ 1,093,450	\$ 1,120,450	\$ 1,120,214	\$ (236)	\$ 1,039,158
Permits and licenses	20,000	16,100	16,075	(25)	17,225
Federal sources	1,451,200	1,009,400	1,009,040	(360)	1,900,883
State sources	6,287,800	6,412,500	6,412,282	(218)	6,226,312
Contributions	1,000,000	1,215,720	1,215,631	(89)	1,556,201
Charges for services	500,000	510,300	510,062	(238)	810,804
Interest and rentals	53,000	77,000	76,808	(192)	51,037
Other revenue	80,000	122,310	122,239	(71)	188,786
Total revenue	<u>10,485,450</u>	<u>10,483,780</u>	<u>10,482,351</u>	<u>(1,429)</u>	<u>11,790,406</u>
Expenditures					
Primary road construction	-	105,000	104,985	15	430,036
Primary road maintenance	5,200,000	5,401,900	5,401,785	115	6,344,927
Local road maintenance	4,964,000	4,462,400	4,462,112	288	4,369,703
State trunkline maintenance	500,000	456,100	456,036	64	585,231
State trunkline non-maintenance	-	43,200	43,112	88	236,552
Equipment expense (net)	(270,000)	(288,600)	(288,757)	157	(314,792)
Administrative expense (net)	430,000	417,200	417,135	65	391,763
Capital outlay (net)	(78,500)	329,400	329,255	145	(91,330)
Other	20,000	10,200	10,150	50	32,496
Total expenditures	<u>10,765,500</u>	<u>10,936,800</u>	<u>10,935,813</u>	<u>987</u>	<u>11,984,586</u>
Net change in fund balance					(194,180)
Fund balances, beginning of year	<u>2,709,099</u>	<u>2,709,099</u>	<u>2,709,099</u>	<u>-</u>	<u>2,903,279</u>
Fund balances, end of year	<u>\$ 2,429,049</u>	<u>\$ 2,256,079</u>	<u>\$ 2,255,637</u>	<u>\$ (442)</u>	<u>\$ 2,709,099</u>

## General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The actual revenue recognized during 2006 was less than the final amended budget by \$1,429.

The final amended expenditure budget for 2006 was \$171,300 greater than the original budget, mainly due to increases in primary road construction and primary road maintenance as a result of an increase in state sources of revenue. The actual expenditures recognized during 2006 were less than the final amended budget by \$987.

### Capital Assets and Debt Administration

As of December 31, 2006, the Midland County Road Commission had invested \$27,458,323 in capital assets. This amount represents a net increase (including additions and deductions) of \$4,454,472 for 19% as follows:

	<u>2006</u>	<u>2005</u>	<u>Total Percentage Change 2005/2006</u>
Capital assets not being depreciated			
Land and improvements	\$ 3,619,170	\$ 3,619,170	0.00%
Land / right-of-way	<u>8,700</u>	<u>8,700</u>	0.00%
Subtotal	<u>3,627,870</u>	<u>3,627,870</u>	0.00%
Capital assets being depreciated			
Buildings	2,815,096	2,718,925	3.00%
Equipment	5,288,959	5,015,838	5.00%
Infrastructure	<u>22,705,357</u>	<u>17,559,801</u>	29.0%
Subtotal	<u>30,809,412</u>	<u>25,294,564</u>	17.0%
Total capital assets	34,437,282	28,922,434	19.0%
Total accumulated depreciation	<u>(6,978,959)</u>	<u>(5,918,583)</u>	17.0%
Total net capital assets	<u>\$ 27,458,323</u>	<u>\$ 23,003,851</u>	19.0%

Major capital asset events during the current fiscal year included the following:

Reconstruction of bridges	\$ 1,536,524
Various resurfacing of roads	3,609,032
Equipment	<u>947,816</u>
Total Additions	<u>\$ 6,093,372</u>

The Midland County Road Commission disposed of equipment during 2006 with a purchase price of \$578,524, related depreciation of \$547,841 and a net book value of \$30,683.

Additional information on the Road Commission's capital assets can be found in note III.B. on page 21.

### Long-term debt

At the year end, the Midland County Road Commission had no notes, bonds or installment purchase agreements.

Other obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III. C. to the financial statements.

## **Economic Factors and Next Year's Budgets and Rates**

No significant factors influenced our preparation of the 2007 Road Commission budget.

## **Requests for Information**

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Midland County Road Commission, 2334 N. Meridian Rd., Sanford, Michigan 48657.

## **BASIC FINANCIAL STATEMENTS**

**MIDLAND COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET**  
**DECEMBER 31, 2006**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>ASSETS</b>			
Cash and interest bearing deposits	\$ 651,150	\$ -	\$ 651,150
Accounts receivable			
State trunkline maintenance	65,217	-	65,217
Due on county road agreements	372,995	-	372,995
Motor vehicle highway funds	877,639	-	877,639
Property taxes	1,100,000	-	1,100,000
Due from other governments	47,117	-	47,117
Inventories			
Equipment material and parts	132,991	-	132,991
Road materials	424,917	-	424,917
Capital assets			
Land and improvements / rights-of-way	-	3,627,870	3,627,870
Property and equipment - net of accumulated depreciation	-	3,762,314	3,762,314
Infrastructure - net of accumulated depreciation	-	20,068,139	20,068,139
<b>Total assets</b>	<b>\$ 3,672,026</b>	<b>27,458,323</b>	<b>31,130,349</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 71,309	-	71,309
Accrued liabilities	49,829	-	49,829
Advances			
State trunkline equipment purchase	112,796	-	112,796
State trunkline maintenance	47,455	-	47,455
Other	35,000	-	35,000
Deferred revenue	1,100,000	-	1,100,000
Long-term liabilities			
Due within one year	-	194,158	194,158
Due after one year	-	242,560	242,560
<b>Total liabilities</b>	<b>1,416,389</b>	<b>436,718</b>	<b>1,853,107</b>
<b>Fund Balance/Net Assets</b>			
Fund balance			
Reserved for inventory	557,908	(557,908)	-
Unreserved, undesignated	1,697,729	(1,697,729)	-
<b>Total fund balance</b>	<b>2,255,637</b>	<b>(2,255,637)</b>	<b>-</b>
<b>Total liabilities and fund balance</b>	<b>\$ 3,672,026</b>		
<b>Net Assets:</b>			
Invested in capital assets		27,458,323	27,458,323
Unrestricted		1,818,919	1,818,919
<b>Total net assets</b>		<b>\$ 29,277,242</b>	<b>\$ 29,277,242</b>

The accompanying notes are an integral part of these financial statements.

**MIDLAND COUNTY ROAD COMMISSION**  
**Reconciliation of General Fund Balance Sheet**  
**to Statement of Net Assets**

**DECEMBER 31, 2006**

---

Fund balances - General Fund	\$ 2,255,637
------------------------------	--------------

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - land and improvements / right-of-way	3,627,870
Add - property and equipment	8,104,055
Add - infrastructure	22,705,357
Deduct - accumulated depreciation	(6,978,959)

Long-term accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(436,718)</u>
---	------------------

Net assets of governmental activities	<u><u>\$ 29,277,242</u></u>
---------------------------------------	-----------------------------

The accompanying notes are an integral part of these financial statements.

# MIDLAND COUNTY ROAD COMMISSION

## STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	Adjustments	Statement of Activities
<b>Expenditures/expenses</b>			
Public works	\$ 4,842,441	\$ 1,613,322	\$ 6,455,763
Capital outlay	6,093,372	(6,093,372)	-
Total expenditures/expenses	<u>10,935,813</u>	<u>(4,480,050)</u>	<u>6,455,763</u>
<b>Program revenue</b>			
Charges for services	1,741,768	-	1,741,768
<b>Operating grants and contributions</b>			
State transportation funds	6,364,147	-	6,364,147
<b>Capital grants and contributions</b>			
Federal and state sources	<u>1,057,175</u>	<u>-</u>	<u>1,057,175</u>
Total program revenues	<u>9,163,090</u>	<u>-</u>	<u>9,163,090</u>
Net program revenue			<u>2,707,327</u>
<b>General revenue</b>			
Taxes	1,120,214	-	1,120,214
Interest and rents	76,808	-	76,808
Contributions not restricted to programs	106	-	106
Gain on sale of assets	<u>122,133</u>	<u>(30,683)</u>	<u>91,450</u>
Total general revenue	<u>1,319,261</u>	<u>(30,683)</u>	<u>1,288,578</u>
Total revenue	<u>10,482,351</u>		
Revenue over (under) expenditures	(453,462)	453,462	-
Changes in net assets	-	3,995,905	3,995,905
Fund balance/net assets:			
Beginning of the year,	<u>2,709,099</u>	<u>22,572,238</u>	<u>25,281,337</u>
<b>End of the year</b>	<u><u>\$ 2,255,637</u></u>	<u><u>\$ 27,021,605</u></u>	<u><u>\$ 29,277,242</u></u>

The accompanying notes are an integral part of these financial statements.



**MIDLAND COUNTY ROAD COMMISSION**  
**Reconciliation of the General Fund Revenues, Expenditures**  
**and Changes in Fund Balance to the Statement of Activities**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

Revenues (under) expenditures - General Fund	\$ (453,462)
--	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	947,816
Add - Infrastructure purchases	5,145,556
Deduct - depreciation expense	(1,608,217)

Disposal of capital assets before they are fully depreciated results in the recording of an expense in the statement of activities, but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.

	(30,683)
--	----------

The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.

	(5,105)
--	---------

Change in net assets of governmental activities	<u>\$ 3,995,905</u>
---	---------------------

The accompanying notes are an integral part of these financial statements.

# MIDLAND COUNTY ROAD COMMISSION

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
<b>Taxes</b>				
County millage	\$ 1,093,450	\$ 1,120,450	\$ 1,120,214	\$ (236)
<b>Permits and licences</b>	20,000	16,100	16,075	(25)
<b>Federal sources</b>				
Surface transportation program (FAS)	60,000	183,200	183,118	(82)
D funds	20,000	-	-	-
Safety grant	200,000	-	-	-
Bridge	1,171,200	826,200	825,922	(278)
<b>State sources</b>				
Michigan Transportation funds				
Engineering	10,000	10,000	10,000	-
Urban	219,600	565,167	565,167	-
Allocation	5,770,400	5,100,133	5,100,003	(130)
State critical bridge	219,600	412,600	412,582	(18)
Safety grant	-	276,400	276,395	(5)
Economic development funds				
D funds	20,000	-	-	-
Forest Road (E)	48,200	48,200	48,135	(65)
<b>Contributions</b>				
City and Villages	1,250	1,250	1,233	(17)
Townships	900,000	1,082,220	1,082,218	(2)
Other	98,750	132,250	132,180	(70)
<b>Charges for services</b>				
State trunkline maintenance	500,000	456,100	456,036	(64)
State trunkline non-maintenance	-	43,200	43,112	(88)
Salvage sales	-	11,000	10,914	(86)
<b>Interest and rentals</b>	53,000	77,000	76,808	(192)
<b>Other revenue</b>				
Proceeds on equipment disposals	80,000	122,200	122,133	(67)
Private contributions	-	110	106	(4)
<b>Total revenue</b>	<u>\$ 10,485,450</u>	<u>\$ 10,483,780</u>	<u>\$ 10,482,351</u>	<u>\$ (1,429)</u>

The accompanying notes are an integral part of these financial statements

# MIDLAND COUNTY ROAD COMMISSION

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures</b>				
<b>Primary Road</b>				
Construction	\$ -	\$ 105,000	\$ 104,985	\$ 15
Heavy maintenance	3,200,000	3,161,500	3,161,460	40
Maintenance	2,000,000	2,240,400	2,240,325	75
<b>Local Road</b>				
Heavy maintenance	2,664,000	1,879,300	1,879,111	189
Maintenance	2,300,000	2,583,100	2,583,001	99
<b>Total maintenance</b>	10,164,000	9,969,300	9,968,882	418
<b>State trunkline maintenance</b>	500,000	456,100	456,036	64
<b>State trunkline non-maintenance</b>	-	43,200	43,112	88
<b>Equipment expense (net)</b>	(270,000)	(288,600)	(288,757)	157
<b>Administrative expense (net)</b>	430,000	417,200	417,135	65
<b>Capital outlay (net)</b>	(78,500)	329,400	329,255	145
<b>Other</b>				
Cities and Villages	20,000	10,200	10,150	50
<b>Total expenditures</b>	10,765,500	10,936,800	10,935,813	987
Net change in fund balance	(280,050)	(453,020)	(453,462)	(442)
Fund balances, beginning of year	2,709,099	2,709,099	2,709,099	-
<b>Fund balances, end of year</b>	<u>\$ 2,429,049</u>	<u>\$ 2,256,079</u>	<u>\$ 2,255,637</u>	<u>\$ (442)</u>

The accompanying notes are an integral part of these financial statements.

# MIDLAND COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Midland County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

#### A. Reporting Entity

The *Midland County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Midland, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the general fund balance sheet and the statement of net assets and the general fund statement of revenues, expenditures and changes in fund balance and the statement of activities. The general fund is considered to be a major fund for financial reporting purposes.

#### C. Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial *statements* (statement of net assets and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability

# MIDLAND COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) *financial* statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major *governmental* fund:

The *general fund* is the government's primary *operating* fund. It accounts for all financial resources of the general government.

### **D. Assets, Liabilities, and Net Assets or Equity**

#### **1. Deposits**

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

#### **2. Inventory**

Inventory, consisting of various operating parts, supplies and road material, is stated at the lower of cost or market, using the FIFO (first-in, first-out) method.

#### **3. Capital Assets**

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

# MIDLAND COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years
Infrastructure – traffic signals	15 years

#### **4. State Trunkline Adjustments**

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the year ended December 31, 2006, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount.

#### **5. Compensated Absences**

Vacation and sick leave payable is reported in the General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

# MIDLAND COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

The Engineer / Manager submits a proposed budget for the upcoming year to the Board of County Road Commissioners. The budget is reviewed by the Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP.) Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

### III. DETAILED NOTES ON ALL FUNDS

#### A. **Deposits**

At year-end, the carrying amounts and bank balance of the Commission's deposits were as follows:

	<b>Cash and Cash Equivalents</b>
Cash on hand	\$ 200
Other demand accounts	<u>650,950</u>
	<u><b>\$ 651,150</b></u>

This entire balance is considered to be deposits for disclosure purposes.

#### **Deposit and investment risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

# MIDLAND COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

The Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The Commission's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, the Commission had no investments and was therefore, not exposed to credit risk.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, The Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. At year-end, \$905,033 of the Commission's bank balance of \$1,005,033 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. The Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, The Commission had no investments and was therefore, not exposed to credit risk.



# MIDLAND COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### **B. Capital Assets**

Capital asset activity for the year ended December 31, 2006, was as follows:

	<b><u>Balance January 1, 2006</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>Balance December 31, 2006</u></b>
Capital assets not being depreciated				
Land and improvements	\$ 3,619,170	\$ -	\$ -	\$ 3,619,170
Land / right-of-way	<u>8,700</u>	<u>-</u>	<u>-</u>	<u>8,700</u>
Total capital assets not being depreciated	<u>3,627,870</u>	<u>-</u>	<u>-</u>	<u>3,627,870</u>
Capital assets being depreciated				
Buildings	2,718,925	96,171	-	2,815,096
Road equipment	4,711,802	839,573	(575,780)	4,975,595
Shop equipment	144,016	-	-	144,016
Office equipment	87,883	5,748	(1,882)	91,749
Engineers equipment	72,137	6,324	(862)	77,599
Infrastructure – bridges	920,859	1,536,524	-	2,457,383
Infrastructure – roads	16,571,495	3,609,032	-	20,180,527
Infrastructure – traffic signals	<u>67,447</u>	<u>-</u>	<u>-</u>	<u>67,447</u>
Total capital assets being depreciated	<u>25,294,564</u>	<u>6,093,372</u>	<u>(578,524)</u>	<u>30,809,412</u>
Less accumulated depreciation				
Buildings	(712,436)	(56,363)	-	(768,799)
Road equipment	(3,324,791)	(516,824)	545,647	(3,295,968)
Shop equipment	(137,417)	(3,002)	-	(140,419)
Office equipment	(71,854)	(5,705)	1,505	(76,054)
Engineer's equipment	(55,203)	(5,987)	689	(60,501)
Infrastructure – bridges	(57,553)	(34,868)	-	(92,421)
Infrastructure – roads	(1,543,512)	(980,949)	-	(2,524,461)
Infrastructure – traffic signals	<u>(15,817)</u>	<u>(4,519)</u>	<u>-</u>	<u>(20,336)</u>
Total accumulated depreciation	<u>(5,918,583)</u>	<u>(1,608,217)</u>	<u>547,841</u>	<u>(6,978,959)</u>
Net capital assets being depreciated	<u>19,375,981</u>	<u>4,485,155</u>	<u>(30,683)</u>	<u>23,830,453</u>
Total net capital assets	<u>\$23,003,851</u>	<u>\$ 4,485,155</u>	<u>\$ (30,683)</u>	<u>\$ 27,458,323</u>

# MIDLAND COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

### C. Long-Term Debt

Long-term liability activity for the year ended December 31, 2006, was as follows:

	<u>Balance January 1, 2006</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance December 31, 2006</u>	<u>Due Within One Year</u>
Compensated absences	\$ 431,613	\$ 199,263	\$ (194,158)	\$ 436,718	\$ 194,158

## IV. OTHER INFORMATION

### A. Defined Benefit Pension Plan

#### **Pension Plan**

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

#### **Funding Policy**

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 12.01% of annual covered payroll for general employees and 17.47% for non-union supervisors. Road Commission employees are required to contribute 4.0% of their annual covered payroll. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

#### **Annual Pension Cost**

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$262,984 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to

# MIDLAND COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation was 30 years.

### Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2004	\$246,402	100%	\$ -
12/31/2005	239,142	100	-
12/31/2006	262,984	100	-

### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2003	\$ 7,928,106	\$ 10,117,065	\$ 2,188,959	78%	\$ 1,809,057	121%
12/31/2004	8,088,227	11,073,375	2,985,148	73	2,003,455	149
12/31/2005	8,169,785	11,625,047	3,455,262	70	1,930,314	179

### **B. Self-Insurance Pool**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool.) The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

### **C. Contingencies**

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

# MIDLAND COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

---

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

### **D. Single Audit**

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County.

During the year ended December 31, 2006, the Road Commission of Midland County expended federal awards in the amount of \$1,009,040. The entire amount of these expenditures represent Department of Transportation Federal Highway grant proceeds expended on public road improvement projects under Federal Urban and Rural Programs, whereby work was administered by the Michigan Department of Transportation. Due to the work and funding of these projects being performed at the State level, these expenditures will be included in the single audit procedures of the State. No federal awards expenditures were administered by the Midland County Road Commission, therefore a single audit for the Road Commission is not required.

\* \* \* \* \*

## **OPERATING FUND SCHEDULES**

# MIDLAND COUNTY ROAD COMMISSION

## GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Revenues</b>				
Taxes				
County millage	\$ -	\$ 1,120,214	\$ -	\$ 1,120,214
Permits and licenses	-	-	16,075	16,075
Federal sources				
Surface transportation program (STP)	183,118	-	-	183,118
Bridge	380,060	445,862	-	825,922
State sources				
Michigan transportation funds				
Engineering	7,000	3,000	-	10,000
Urban road	408,407	156,760	-	565,167
Allocation	3,680,470	1,419,533	-	5,100,003
State critical bridge	328,983	83,599	-	412,582
Safety grant	276,395	-	-	276,395
Economic development funds				
Forest road (E funds)	48,135	-	-	48,135
Contributions from local units				
City and Village	-	-	1,233	1,233
Townships	-	1,082,218	-	1,082,218
Other governments	-	132,180	-	132,180
Charges for services				
State trunkline maintenance	-	-	456,036	456,036
State trunkline non-maintenance	-	-	43,112	43,112
Salvage sales	-	-	10,914	10,914
Interest and rentals	76,808	-	-	76,808
Other				
Gain on equipment disposals	67,133	-	55,000	122,133
Private contributions	-	-	106	106
<b>Total revenues</b>	<u>\$ 5,456,509</u>	<u>\$ 4,443,366</u>	<u>\$ 582,476</u>	<u>\$ 10,482,351</u>

# MIDLAND COUNTY ROAD COMMISSION

## GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Expenditures</b>				
Construction				
Roads	\$ 104,985	\$ -	\$ -	\$ 104,985
Heavy maintenance				
Roads	1,781,082	1,221,075	-	3,002,157
Structures	878,488	658,036	-	1,536,524
Safety projects	501,890	-	-	501,890
Maintenance				
Roads	1,692,806	2,267,465	-	3,960,271
Winter maintenance	371,679	216,119	-	587,798
Traffic control	175,840	99,417	-	275,257
Total maintenance	5,506,770	4,462,112	-	9,968,882
State trunkline maintenance	-	-	456,036	456,036
State trunkline non-maintenance	-	-	43,112	43,112
Equipment expense (net)	(104,819)	(150,038)	(33,900)	(288,757)
Administrative expense (net)	230,424	186,711	-	417,135
Capital outlay (net)	323,467	-	5,788	329,255
Other				
Cities and villages	-	-	10,150	10,150
<b>Total expenditures</b>	<b>\$ 5,955,842</b>	<b>\$ 4,498,785</b>	<b>\$ 481,186</b>	<b>\$ 10,935,813</b>

**MIDLAND COUNTY ROAD COMMISSION**

**GENERAL OPERATING FUND**

**SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 5,456,509	\$ 4,443,366	\$ 582,476	\$ 10,482,351
Total expenditures	<u>5,955,842</u>	<u>4,498,785</u>	<u>481,186</u>	<u>10,935,813</u>
<b>Revenues over (under) expenditures</b>	(499,333)	(55,419)	101,290	(453,462)
<b>Other financing sources (uses)</b>				
Intrafund transfers	<u>(416,682)</u>	<u>416,682</u>	<u>-</u>	<u>-</u>
<b>Revenues and other sources over (under)     expenditures and other (uses)</b>	(916,015)	361,263	101,290	(453,462)
<b>Fund balance, beginning of year</b>	<u>875,067</u>	<u>288,102</u>	<u>1,545,930</u>	<u>2,709,099</u>
<b>Fund balance, end of year</b>	<u><u>\$ (40,948)</u></u>	<u><u>\$ 649,365</u></u>	<u><u>\$ 1,647,220</u></u>	<u><u>\$ 2,255,637</u></u>





# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

June 22, 2007

Members of the Board of County  
Road Commissioners  
County of Midland, Michigan  
Sanford, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the **Midland County Road Commission**, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered **Midland County Road Commission's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such

that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the **Midland County Road Commission's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Midland County Road Commission's written response to the material weakness identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Road Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management and Board of County Road Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

**Finding 2006-1**

**Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements**

<b>Criteria:</b>	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP.) This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
<b>Condition:</b>	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
<b>Cause:</b>	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
<b>Effect:</b>	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
<b>View of Responsible Officials:</b>	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

June 22, 2007

To the Board of County Road Commissioners of the  
Midland County Road Commission  
Sandford, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Midland County Road Commission for the year ended December 31, 2006, and have issued our report thereon dated June 22, 2007. Professional standards require that we provide you with the following information related to our audit.

## **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated April 13, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Midland County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Midland County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

## **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies

used by Midland County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Midland County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors and assumptions used to develop the original cost and accumulated depreciation of the Road Commission's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current PTO banks, current hourly rates and policies regarding payment of PTO banks. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Midland County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Midland County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on Midland County Road Commission's financial reporting process.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

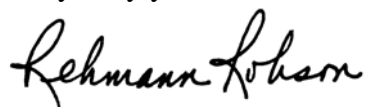
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Midland County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of County Road Commissioners and management and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", written in a cursive style.

Midland County Road Commission  
Schedule of Adjustments Passed (SOAP) - **Government-wide Financial Statements**  
For the December 31, 2006 Audit

In accordance with the provisions of SAS 89, *Audit Adjustments*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 89, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement					
	Assets	Liabilities	Beginning Equity	Revenue	Expenses/ Expenditures	Ending Equity
<b>General Fund</b>						
Unrecorded Accts Pay in 2005	\$ -	\$ -	\$ 13,552	\$ -	\$ (13,552)	\$ -
Unrecorded Accts Pay in 2006	-	-	-	-	-	-
BCBS Premiums paid in 2005	-	-	(68,431)	-	(68,431)	<b>68,431</b>
BCBS Premiums paid in 2006	(74,483)	-	-	-	74,483	<b>(74,483)</b>
Sick and vacation - 2005	-	(21,603)	-	-	(21,603)	<b>21,603</b>
Sick and vacation - 2006	-	20,357	-	-	20,357	<b>(20,357)</b>
Unrecorded FICA in 2005	-	-	2,794	-	(2,794)	<b>2,794</b>
Unrecorded FICA in 2006	-	-	-	-	-	-
Total Fund Statements	<u>\$ (74,483)</u>	<u>\$ (1,246)</u>	<u>\$ (52,085)</u>	<u>\$ -</u>	<u>\$ (11,540)</u>	<u>\$ (2,012)</u>
Total GWFS	<u>\$ (74,483)</u>	<u>\$ (1,246)</u>	<u>\$ (52,085)</u>	<u>\$ -</u>	<u>\$ (11,540)</u>	<u>\$ (2,012)</u>